HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Kelowna CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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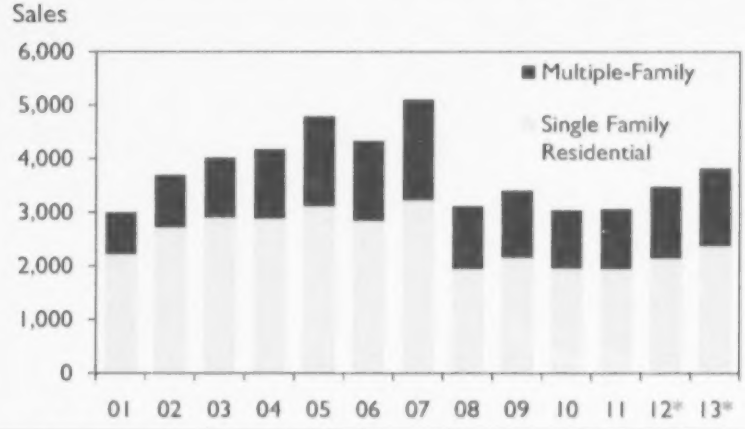
Kelowna Highlights[1]

- Demand for new and existing homes is expected to strengthen in 2013. Stronger employment growth coupled with favourable mortgage interest rates will support demand for housing in Kelowna next year.
- MLS® home sales are forecast to increase eight per cent in 2013. Buyers will continue to benefit from an ample supply of listings and strong price competition among sellers.
- Expect prices to edge higher, increasing two per cent in 2013 as demand improves and the supply of listings is drawn down.
- Kelowna area housing starts are expected to move higher, increasing to 1,050 homes in 2013. Housing starts are forecast at 820 homes in 2012 compared to 934 homes in 2011.

Figure 1

MLS® Home Sales Strengthen in 2012 and 2013



Source: Okanagan Mainline Real Estate Board (OMREB). Multiples: Apartment and all Townhouses (not including Big White Ski Resort). Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association. *CMHC Forecast.

[1] *The forecasts included in this document are based on information available as of October 17, 2012.*

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MLS® Home Sales Pick Up in 2012 and 2013

Kelowna area home sales are forecast to increase in 2013. Demand is expected to strengthen as British Columbia records higher levels of migration and the provincial and Kelowna area economies experience stronger employment growth. Low interest rates coupled with stable prices will also support modest growth in demand for existing homes next year.

MLS® home sales have moved higher in 2012 with year-to-date detached home, townhouse and apartment condominium sales increasing compared to the same nine month period in 2011. Townhouse and apartment condominium sales recorded the biggest percentage gains. Total MLS® residential home sales are forecast to rise eight per cent in 2012. This year's upswing will carry over into 2013.

Kelowna's resale market is forecast to remain well supplied with homes listed for sale in 2013. This means that buyers will continue to benefit from price competition among sellers. Expect the supply of active listings to begin moving lower during the second half of 2013 as demand improves.

Prices have remained flat despite rising sales, keeping the Kelowna area resale market in a borderline buyers' to balanced market position this year. Kelowna's resale market is expected to move to balanced from buyers' market conditions later in 2013.

MLS® single family home prices are forecast to edge higher in 2013 as the supply of listings slowly comes down and demand for higher priced homes picks up. Modest growth in demand coupled with an ample supply of listings will temper upward pressure on prices next year. The 2012 annual average and median single family home sale price are expected to remain essentially unchanged compared to the previous year. The average and median price trends have been divergent with the latter indicating prices stabilized by mid 2012. The average price trend has moved lower due mainly to shifts in the price composition of sales rather than declining prices.

Despite a few more sales of mid and higher priced homes this year than last, the focus of demand has remained on moderately priced homes in 2012. Single-family homes (detached and semi-detached units) priced at less than $400,000 represented 39 and 37 per cent of home sales during the first nine months of 2012 and 2011 respectively. This price range accounted for only 22 per cent of sales in 2008.

Rutland, Westbank, Glenrosa and the Core area will be the most modestly priced locations in Kelowna. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of home buyers seeking mid-priced single-detached homes. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of North Glenmore, Lakeview Heights and West Kelowna will command the highest prices.

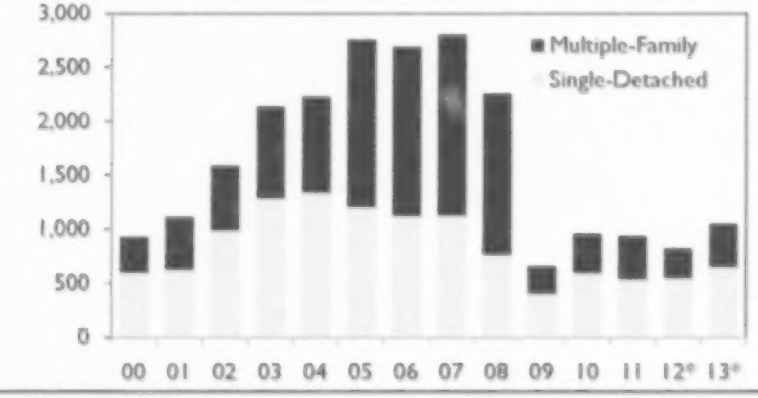
Apartment condominiums and townhouse sales are expected to see stronger growth in 2013 as the price of detached homes stabilizes and begins to edge higher. Sales of condominiums and townhouses were up 14 and 12 per cent, respectively, in the first nine months of 2012 compared to 2011 levels. As in the detached home sector, lower-priced home ownership units have been the focus of demand. The lower cost of multiple-family housing relative to detached homes together with favourable interest rates has led to increased demand among first-time buyers this year.

Demand from out-of-region buyers for resort condominiums and second residences has moderated from levels recorded during 2003-2008. Stronger competition from US resort markets and a growing number of new resort developments elsewhere in British

Figure 2

New Home Construction Picks Up in 2013

Kelowna Housing Starts



Source: CMHC, *CMHC Forecast

Columbia contributed to fewer sales of this type of home during the past several years. With the Alberta and Saskatchewan economies continuing to expand, Kelowna's resort market can expect to attract a few more buyers in 2013.

Condominium prices are forecast to stabilize by year-end 2012 and edge higher later next year as demand strengthens and the supply of listings is slowly drawn down.

Housing Starts Move Higher in 2013

Kelowna area housing starts are forecast at 1,050 homes in 2013, up from 820 homes this year. Both detached home and multiple family starts are expected to increase in 2013 (see Figure 2).

In 2012, housing starts are forecast to move lower compared to 2011 levels, with fewer multiple-family starts accounting for the decline. Detached home starts will match 2011 levels. Competition from a well supplied resale market and lingering inventories of new, completed and unoccupied apartment condominium units have been factors constraining the pace of new home construction in 2012. Fewer rental apartment starts will also contribute to lower levels of new home construction this year. Apartment rental construction boosted the level of multiple-family starts in both 2010 and 2011.

Single-detached home starts are forecast to increase next year. The inventory of new, completed and unoccupied detached homes has steadily declined in 2012. Lower inventories of unsold new homes

Figure 3

Source: CMHC

will contribute to higher levels of detached home construction next year. Lower lot prices and construction costs have also enabled builders to better compete with the existing home market. Builders and new home buyers have benefited from a wide selection of building lots. The supply of active MLS® lot listings[2] averaged 450 to 500 per month during the past several years compared to 200 to 300 listings per month prior to 2009.

Sales of new detached homes priced at more than $600,000 have picked up slightly in 2012. In contrast, the upswing in demand for homes priced below $500,000 recorded during the past two year period has flattened out. Lower construction costs may have contributed to an increase in demand for higher-priced homes this year.

The Upper Mission, Lake Country, Black Mountain, Shannon Lake and Glenmore areas and Westbank First Nations lands recorded the highest levels of detached home construction in 2012.

Kelowna's multiple-family sector will record fewer starts this year compared 2011. With few exceptions, builders have focused on smaller, home owner-oriented attached housing projects during the past eighteen months rather than apartment condominium buildings. This type of project is more easily released to the market in phases. New projects are targeting local buyers rather than out-of-region buyers or those seeking resort homes and second residences. As in the detached home sector, demand has been strongest for moderately-priced homes.

Apartment condominium starts have been slower to rebound than detached home starts. Reduced demand for second residences, resort homes and other types of investor-oriented condominiums in combination with elevated

[2] Less acreages and Fintry and Big White areas.

inventories have led to lower levels of condominium starts during the past several years. Condominium absorption has remained below levels recorded in the mid 2000s, despite price reductions and other builder incentives to attract buyers.

The inventory of new, completed and unabsorbed condominiums peaked at 420 units in early 2010 and since that time slowly declined to 123 units in September 2012 (see Figure 3). Declining inventories were due in part to the conversion of several condominium projects to rental buildings. The absorption of unsold inventory is expected to accelerate through the remainder of 2012 and in 2013. Similarly, the supply of condominiums under construction has come down, decreasing to 268 units in September 2012 from almost 3,000 units four years ago. While lower inventories together with fewer projects under construction better position Kelowna's condominium sector for expansion, competition from a well-supplied resale market has dampened condominium starts in 2012. Condominium construction is forecast to increase next year as demand improves and the supply of resale homes listed for sale and the inventory of new completed and unoccupied condominiums move lower. Recent proposals have targeted niche market locations and buyer groups rather than the broader marketplace

Figure 4

Low Mortgage Rates Support Housing Demand

Source: Bank of Canada.

Kelowna Economy and Population Growth Support Demand for Housing

Kelowna area employment and population growth will support demand for housing in 2013. The employment outlook for Kelowna calls for conservative gains in 2013 with the construction industry and the service producing sector forecast to record modest employment growth next year. Total employment moderated during the first nine months of 2012, but included higher levels of full-time employment compared to the same period in 2011. Employment levels have begun to move higher in recent months. These trends are expected to carry over into 2013.

The Kelowna International airport and associated business cluster and the University of British Columbia – Okanagan Campus (UBC Okanagan) have emerged as two key regional employment centres.

UBC Okanagan has become a major economic driver since its creation in 2005, bringing to Kelowna direct and spin-off employment, significant capital expenditure, industry partnerships, research dollars, profile and demand for housing. Student enrolment has more than doubled to over 8,000 students since 2005, reaching normal capacity this year.

The Kelowna International Airport is now ranked Canada's tenth busiest airport with passenger volumes on track to reach record levels in 2012. Further expansion to the terminal facilities will be ongoing through 2016. Improved accessibility to the Okanagan will enhance the area's appeal to tourists, business and potential home buyers.

Another project of significance to the local economy is the on-going expansion of Kelowna General Hospital to broaden health care services to include those currently available only in Vancouver. Accessible health care is an important consideration for those seeking to relocate to this region.

Census results indicate the Kelowna CMA population increased by 10.8 per cent between 2006 and 2011, among British Columbia's fastest growing jurisdictions. People coming from other provinces and within British Columbia were key sources of population growth and housing demand. While moderating from levels recorded during the mid 2000s, BC

Stats projects population growth and household formation to remain steady in the 1.5 – 2 per cent range through 2025[3].

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

[3] *BC Stats PEOPLE 36 population projection model results.*

Forecast Summary
Kelowna CMA
Fall 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales [1]	3,660	3,289	3,330	3,600	8.1	3,900	8.3
MLS® New Listings [1]	9,515	9,987	9,202	8,950	-2.7	9,700	8.4
MLS® Average Price ($) [2]	489,453	525,491	507,392	505,250	-0.4	510,000	0.9
New Home Market							
Starts:							
Single-Detached	404	595	539	550	2.0	650	18.2
Multiples	253	362	395	270	-31.6	400	48.1
Semi-Detached	62	68	83	65	-21.7	70	7.7
Row/Townhouse	55	70	96	105	9.4	130	23.8
Apartments	136	224	216	100	-53.7	200	100.0
Starts - Total	657	957	934	820	-12.2	1,050	28.0
Average Price ($):							
Single-Detached	751,103	769,670	734,110	750,000	2.2	760,000	1.3
Median Price ($):							
Single-Detached	582,645	610,000	574,900	600,000	4.4	615,000	2.5
New Housing Price Index (% chg) (B.C.)	-6.5	2.6	-0.4	-0.8	-	0.4	-
Rental Market							
October Vacancy Rate (%)	3.0	3.5	3.0	3.3	0.3	2.9	-0.4
Two-bedroom Average Rent (October) ($)	897	898	922	925	-	934	-
One-bedroom Average Rent (October) ($)	737	740	736	745	-	755	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	87,500	94,600	94,400	93,300	-1.17	94,600	1.39
Employment Growth (%)	0.3	8.1	-0.2		-		-
Unemployment rate (%)	8.8	7.7	7.9	7.0	-	7.0	-
Net Migration (B.C.)	60,061	43,405	35,248	42,000	19.2	52,400	**

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).
(1) The 2012 and 2013 migration data is a forecast.
Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM), OMREB (Okanagan Mainline Real Estate Board).
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over.
(1) MLS® Sales and New Listings = Total Residential. (2) MLS® Average Sale Price = Single Family Residential.

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